1999 Country Reports on Economic Policy and Trade Practices
Released by the Bureau of Economic and Business Affairs
U.S. Department of State, March 2000

ALGERIA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production and Employment:			
Nominal GDP 2/	47,100	48,300	51,400
Real GDP Growth 3/	1.1	5.1	4.0
GDP by Sector: 2/			
Agriculture	4,497	5,756	6,171
Manufacturing	4,405	4,765	5,129
Construction	4,616	4,731	5,028
Hydrocarbons	13,717	10,700	12,042
Services	10,771	11,794	12,707
Government	8,922	9,670	10,323
Real Per Capita GDP (US$)	1,596	1,610	1,620
Labor Force (millions)	8.07	8.10	8.3
Unemployment Rate (pct)	27.8	28.0	28.0
Fiscal Deficit/GDP (pct)	2.4	-3.50	-4.5
Money and Prices (annual percentage growth):			
Money Supply (M2)	18.5	19.0	21.5
Consumer Price Index	5.7	5.0	3.5
Exchange Rate (dinar/US$, annual average)			
Official 4/	57.7	59.5	65
Parallel 5/	65.0	70.0	71
Balance of Payments and Trade:			
Total Exports	14,640	10,213	12,100
Oil/Gas	13,700	10,100	11,000
Exports to U.S. 6/	2,439	1,656	1,775
Total Imports CIF	10,190	9,403	9,900
Imports from U.S. 6/	695	713	905
Trade Balance	4,450	1,500	1,200
Balance with U.S.	1,744	953	870

Current Account Deficit/GDP (pct)	6.45	-1.00	-1.6
External Public Debt	31,050	30,261	28,960
Debt Service/GDP (pct)	8.9	11.1	11.3
Gold and Foreign Exchange Reserves	8,500	8,300	6,510
Aid from U.S. 7/	156	209	325
Aid from All Sources 8/	392	N/A	N/A

1/ Embassy estimates based on partial data furnished by Algeria's Central Bank.
2/ GDP at current market price.
3/ Percentage changes calculated in local currency.
4/ Bank of Algeria and embassy estimate.
5/ Embassy estimates.
6/ 1999 data, based upon 9 month statistics.
7/ In thousands of dollars, IMET and USIA exchanges.

1. General Policy Framework

The Algerian market offers significant commercial opportunities to U.S. exporters and investors. Algeria has large proven oil and gas reserves with the potential for additional discoveries. U.S. technology and expertise are highly prized as a means to explore and exploit these resources. The hydrocarbon sector is the largest market for U.S. exports. However, Algeria is the world's fifth largest importer of wheat and Algeria is projected to import some $2.4 billion in foodstuffs in the year 2000. Other sectors where there is a strong potential demand for U.S. goods and services in Algeria include housing, consumer products, water projects, and telecommunications. Total Algerian imports in the year 2000 are expected to reach almost $10 billion. There are pressures for the government to deregulate the trade sector. According to the International Monetary Fund (IMF), total foreign exchange reserves peaked at $8.6 billion in March 1998. Current estimates are that reserves will fall to $5-6 billion by year-end 1999. However, with past debt rescheduling completed and steady energy exports, there is little danger of financial shortcomings. Algeria has a growing population, its infrastructure needs renovation, and there is a critical housing shortage. Over the medium and long term, Algeria should be a large, growing market for U.S. exports.

U.S. exports to Algeria rose about 7 percent in 1999 relative to the level of the year before. U.S. agricultural exports to will increase in 1999-2000 due to a drought which will require additional wheat imports. The Algerians have requested a program of agricultural credits for 1999-2000. The World Bank plans to offer loans for housing, water and sewage, and urban transport.

The 1998 government budget was the first one in four years not subject to the constraints of an IMF structural adjustment program. The government loosened the tight fiscal policy it has been pursuing in conjunction with the IMF-backed program. The drop in oil prices in early 1999 forced a revision of projected revenue and cuts in spending plans. The rebound of oil prices later in 1999 allowed some leeway in spending plans.

The instruments of monetary policy in Algeria are limited. The Bank of Algeria controls monetary growth primarily via bank lending limits. Interest rates are set weekly by a government board. In late 1999, the central bank rediscount rate stood at 8.5 percent and commercial bank lending rates ranged between 8.5 and 10 percent. To finance government deficit spending, the government sells bonds on the primary market to Algerian customers. In 1998, for the first time the central bank opened a secondary market for government debt.

Still, the lack of a modern financial services sector restricts growth of the private sector and is an impediment to foreign investment in Algeria. Reform efforts in the state-owned banking sector overall have progressed slowly. In the emerging private banking sector, private banks began operations in Algeria during 1998, including one U.S.-based bank. In late 1999 a major French financial institution announced plans to open an office in Algiers. The Algerian

Government is also backing development of primary and secondary housing mortgage loan markets.

2. Exchange Rate Policy

With hydrocarbon exports making up well over 90 percent of exports earnings, the price of oil is the major determinant of the exchange rate. A government board implements a managed float system for the dinar, which is convertible for all current account transactions. Private and public importers may buy foreign exchange from five commercial banks for commercial transactions provided they can pay for hard currency in dinars. Although commercial banks may buy foreign exchange from the Bank of Algeria at regular weekly auctions, at which they set the dinar's exchange rate, they are no longer required to surrender to the Bank of Algeria the foreign exchange they acquire and may trade these resources among themselves. However, since the central bank buys the foreign hydrocarbon export proceeds of the national oil company, SONATRACH, the bank plays the dominant role in the foreign exchange market. The primary objective of its intervention policy is to avoid sharp fluctuations in the exchange rate.

3. Structural Policy

The government has changed major aspects of its regulatory pricing, and tax policies as part of its overall structural adjustment program during the past five years. It has loosened its tight hold on state-owned company purchase, production, and pricing decisions in order to give their managers greater autonomy. During the late spring 1997, the government suspended its program of emergency financing for state-owned firms that had recourse to such funding to cover overdrafts and otherwise pay off outstanding debt. The government also pursued its policy of eliminating subsidies. Presently subsidies exist for basic food items (milk and wheat products), energy and public transportation. The government has privatized or liquidated 1000 state enterprises since 1996. In July, 1999 the Algiers Stock Exchange opened. There are plans for additional privatization as Algeria moves away from a socialist, centralized economy to one operating on market principles.

The government ran a budget surplus in 1997 because of increased revenues from hydrocarbon exports, which accounted for about 60 percent of fiscal revenues and 95 percent of export earnings during the last two years. In 1996, the government modified its import duty schedule so that eight different rates cover all foodstuffs, semi-finished, and finished products, with the top rate being 45 percent in 1997. The government reformed its tax code in 1998 to encourage business development, cutting rates in several categories as part of the 1999 budget. The new law will reduce corporate tax rates from 38 to 30 percent, decreasing again to 18 percent if profits are re-invested in the company. The law also excludes from taxation profits on stock and bond sales for five years.

Algeria is not a member of the World Trade Organization, but there is a movement to re-start stalled accession discussions. Algeria is hopes to begin formal negotiations in mid-2000 for an association agreement with the European Union.

4. Debt Management Policies

At the end of 1998 total medium and long-term debt stood at $30.26 billion. From 1994-1998 Algeria rescheduled some $10.48 billion of external debt. In May 1999, Algeria received a $300-million CCFF ("Compensatory and Contingency Financing Facility") credit from the IMF and balance of payments support from the Arab Monetary Fund to help offset any negative impact of the fall in oil prices. Payment in 1998 of principal and interest on the debt that had been rescheduled totaled $5.21 billion. The amounts for 1999-2001 are $5.81 billion, $4.20 billion, and $4.13 billion, respectively. The share of export earnings spent on debt service payments in 1999 remained around 47 percent, the same as 1998. The debt service/exports ratio is expected to drop to 42 percent in 2000.

In order to meet debt service and support an increase in the real output of goods and services, the government is counting both on hydrocarbon export revenues to recover and on a substantial rise in non-hydrocarbon export revenues in the coming years. On the former point, in 1999 the Algerian economy remained sensitive to fluctuations in oil prices. Exports of non-hydrocarbon exports are expected to rise in the coming years.

The central bank is estimating that the growth of Algeria's Gross Domestic Product (GDP) in volume terms will be about 5 percent per annum during the next three years (2000-2002). Based on the assumption that the average price of oil being $15 per barrel, the government assumes that Algeria's balance of payments will be such during this period that its stock of outstanding debt will decline by more than $3.82 billion between 1997 and 2003 (from $31.1 billion to $27.28 billion). Under these assumptions, outstanding debt as a proportion of GDP will decline from 66.4 percent to 45.6 percent by the end of the period.

5. Significant Barriers to U.S. Exports

Algeria has largely deregulated its merchandise trade regime. Import licenses are no longer required. The only imports subject to restrictions are firearms, explosives, narcotics, and pork products, which are prohibited for security or religious reasons. The government insists on particular testing, labeling, or certification requirements being met, however. The Ministry of Health requires distributors to obtain authorizations to sell imported drugs, which must have been marketed in their country of origin, as well as in a third country, before they may be imported. Government regulations stipulate that imported products, particularly consumer goods, must be labeled in Arabic. This regulation is enforced. It is helpful to label products in French. Food products when they arrive in Algeria must have at least 80 percent of their shelf life remaining. Algeria's customs administration has simplified import clearance procedures, but the process remains time-consuming and the source of many complaints. The banking system is inefficient and the telecommunication system is not up to modern standards and capabilities. Licenses to offer Internet access have been granted to private firms, but overall access to the Internet and the use of e-commerce is weak.

The government has deregulated some service sectors, notably insurance and banking. Air couriers are allowed to operate in Algeria subject to approval of the Algerian Ministry of Post and Telecommunications (PTT). DHL offers service in several Algerian cities. Although the PTT has a monopoly on all telecommunications services, it permits the local production, importation, and distribution of telecommunications equipment. A second cellular license is expected to be offered in 2000.

There are no absolute barriers to or limitations on foreign investment in Algeria. The 1991 Hydrocarbons Sector Law and the 1991 Mining Law, revised in 1999 to permit majority foreign ownership of mining enterprises, govern investments in these two local sectors. Production sharing agreements are routine and comply with international oil business norms.

The Algerian Government's procurement practices do not adversely affect U.S. exports. Algeria participates officially in the Arab League boycott against Israel, but no U.S. firms have been disadvantaged by Algeria's policy in this regard.

6. Export Subsidies Policies

About 95 percent of Algeria's export revenues are derived from oil and natural gas exports. The government does not provide direct subsidies for hydrocarbon or non-hydrocarbon exports. The government reactivated a non-hydrocarbon exports insurance and guarantee program in 1996, but it has had little effect. Almost all export restrictions have been removed, the exceptions being palm seedlings, sheep, and artifacts of historical and archaeological significance.

7. Protection of U.S. Intellectual Property

Algeria is a member of the Paris Industrial Property Convention and the 1952 Convention on Copyrights. Algerian legislation protects intellectual property in principle but its enforcement is less than complete.

Patents are protected by the law of December 7, 1993 and administered by the Institut Algerien De Normalisation Et De Propriete Industrielle (INAPI). Patents are granted for 20 years from the date the patent request is filed and are available for all areas of technology.

The laws of March 19, 1966 and of July 16, 1976 afford trademark protection. In 1986, authority for the granting and enforcement of trademark protection was transferred from INAPI to the Centre National Du Registre Du Commerce (CNRC).

A 1973 law provides copyright protection for books, plays, musical compositions, films, paintings, sculpture, and photographs. The law also grants the author the right to control the commercial exploitation or marketing of the above products. The 1973 law is being amended to include protection for (among other things) videos and radio programs.

Algeria's intellectual property practices have had a minimally adverse affect on U.S. trade.

8. Worker Rights

a. The Right of Association: Workers may form and be represented by trade unions of their choice. Government approval for the creation of a union is required. Unions may not affiliate with political parties or receive funds from abroad, and the government may suspend a union's activities if it violates the law. Unions may form and join federations or confederations, and they have affiliations with international labor bodies.

b. The Right to Organize and Bargain Collectively: A 1990 law permits all unions to engage in collective bargaining. This right has been freely practiced. While the law prohibits discrimination by employers against union members and organizers, there have been instances of retaliation against strike organizers. Unions may recruit members at the workplace.

c. Prohibition of Forced or Compulsory Labor: Forced or compulsory labor has not been practiced in Algeria and is incompatible with the constitution.

d. Minimum Age for Employment of Children: The minimum employment age is 16 years and inspectors can enforce the regulation. In practice, many children work part or full time in small private workshops and in informal trade.

e. Acceptable Conditions of Work: The 1990 law on work relations defines the overall framework for acceptable conditions of work. The law mandates a 40-hour work week. The government has set a guaranteed monthly minimum wage of 6,000 Algerian Dinars ($100). A decree regulates occupational and health standards. Work practices that are not contrary to the regulations regarding hours, salaries, and other work conditions are left to the discretion of employers in consultation with employees.

f. Worker Rights in Sectors with U.S. Investment: Nearly all of the U.S. investment in Algeria is in the hydrocarbon sector. Algerian workers in this sector enjoy all the rights defined above. These workers at American firms enjoy better pay and safety than do most workers elsewhere in the economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		2,156
Total Manufacturing		0
Food & Kindred Products	0	
Chemicals & Allied Products	0	
Primary & Fabricated Metals	0	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		0
Banking		0
Finance/Insurance/Real Estate		0
Services		(1)
Other Industries		(1)
TOTAL ALL INDUSTRIES		2,372

(1) Suppressed to avoid disclosing data of individual companies.

Source: U.S. Department of Commerce, Bureau of Economic Analysis.